M e m o r a n d u m

To:	Panel Members	Date:	October 24, 2002
From:	Creighton Chan, Manager Peter DeMauro, General Counsel	Analyst:	D. Woodside
Subject:	One-Step Agreement for **Covad Communications, Inc. (SET)** (www.covad.com)		

CONTRACTOR:

- Training Project Profile: Retraining: companies with out-of-state competition

- Legislative Priorities: Moving to a High Performance Workplace

    Stimulating Exports/Imports

    SET-Workers Earning at Least State Average Hourly Wage

- Type of Industry: Services /Digital Subscriber Line (DSL) provider

- Repeat Contractor: No

- Contractor's Full Time Employees:

    Company Wide: 1,300

    In California: 500

- Fringe Benefits: Yes

- Union Representation: No

- Name and Local Number of Union
  representing workers to be Trained: N/A

CONTRACT:

- Program Costs: $126,605

- Substantial Contribution: $0

- Total ETP Funding: $126,605

- In-Kind Contribution: $360,750

- Reimbursement Method: Fixed-Fee

- County(ies) Served: Santa Clara

- Duration of Agreement: 24 months

SUBCONTRACTORS:

California Training Cooperative, Monterey, California, for an amount not to exceed $15,193 for project administration services.

This project will primarily use in-house trainers. However, the Company may need to utilize training vendors at some point during the Agreement term. The Company understands that the vendors must be California-based, that they must notify ETP prior to the use of any vendor, and that they must have a subagreement on file prior to the start of training by that vendor.

THIRD PARTY SERVICES:

California Training Cooperative assisted with the development of the application for a flat rate of $5,000.

NARRATIVE:

Covad Communications, Inc. (Covad), headquartered in Santa Clara, California, is a national broadband service provider of high-speed Internet and network access utilizing Digital Subscriber Line (DSL) technology. Covad's services are currently available across the United States in 94 of the top Metropolitan Statistical Areas which are how the Office of Management and Budget defines metropolitan areas for purposes of collecting, tabulating, and publishing federal data. Covad's network capacity reaches 40 to 45 percent of all United States homes and businesses. With an estimated 360,000 customers, Covad's specialty is serving small and medium-sized businesses because of its sophisticated technology, super fast speeds (four times faster than traditional dial-up connections), online account management tools, billing options, and service agreements. In addition to its headquarters, Covad also has a Network Operations Center in San Jose, California, as well as field services and support centers throughout California and the nation. Covad employs 500 Californians on a full-time basis.

Covad Communications, Inc. was determined as eligible for standard ETP retraining under Title 22, California Code of Regulations, Section 4416(d)(1), as a company headquartered in California. The headquarters' staff provide support functions for facilities located throughout the United States. These trainees comprise Job Number 1. The remaining trainees (Jobs 2 through 5) will utilize Special Employment Training (SET) funds under Title 22, California Code of Regulations, Section 4409(a) for the retraining of frontline workers in occupations that pay the state average hourly wage.

Covad was founded in October 1996 by three former Intel employees who saw the opportunity created by the Telecommunications Act of 1996, to build a company that capitalized on deregulation in the communications industry and the explosive growth of the Internet. The founders believed that customers were seeking a better telecommunications service provider using innovation and advanced technology. In the next three years, the Company expanded its markets and grew exponentially.

Toward the end of 2000, however, decreased expenditures by the business sector following the slowdown in the overall economy forced many DSL providers out of business. As a response to the market downturn, Covad restructured its business, including cutting costs, consolidating office space, ceasing further growth of the DSL network, and streamlining its direct sales and marketing channel. In the first half of 2001, the DSL market in North America declined 44%, and in August 2001, Covad announced plans for reorganization under Chapter 11 of the United States Bankruptcy Code as part of a voluntary pre-negotiated plan to eliminate its high debt level. Covad's DSL network and its customers remained unaffected throughout the filing period, and Covad emerged from Chapter 11 in December 2001, with

NARRATIVE: (continued)

many of its former direct competitors no longer in business. Covad has since reorganized and recreated agreements with local exchange carriers such as SBC Communications that have provided the funding Covad needs to finance its growth and stability.

Covad's management realizes that major changes must be made in the way the company operates in order to regain its competitive edge. The company must become a high performance workplace by expanding its markets, creating new and improved processes and services, and providing employees with advanced skills in new telecommunications technologies.   In addition, Covad must develop leadership skills and a team environment throughout the workforce.

To achieve these goals, Covad is requesting the Panel's assistance to retrain 262 of its California workers in Business, Continuous Improvement, Commercial, Management, and Computer skills. For Job Number 1, trainees will be comprised of staff from across the headquarters workforce including administrative, technical, and management staff. SET Frontline Worker trainees in Job Numbers 2 through 5 will be technicians, sales, administrative, and various other technical staff. No managers are included in Job Numbers 2 – 5. Training will consist of 15-40 classroom/laboratory hours for each trainee. Job Numbers 2, 3, and 4 trainees are technicians who work out in the field and in the Network Operations Center (NOC) site in San Jose. Each Job Number 2, 3, 4, and 5 trainee will also receive between 12-30 hours of computer-based training. All trainees will receive at least 40 hours of training in total.

Business Skills: This portion of the training program focuses on achieving a key company goal, which is: "profitable growth with a relentless focus on the customer experience." This goal requires that Covad personnel be able to convince consumers to switch from slower and less user-friendly "dial-up" connections to a faster DSL system. In order to achieve this, Covad must offer customers increased security, connection speeds and improved repair times. To further build business customers' confidence in Covad's services, the company recently introduced enhanced Service Level Agreements which guarantee 99.9% or better service availability and delivery of data over Covad's network. This training will assist the company to fulfill such agreements and help employees to work effectively with customers by increasing their industry and technical knowledge, including up-to-date DSL and network technology, product upgrades, and enhanced services. Business skills training in advanced sales skills, including strategic business development, will further define Covad's market focus and increase the potential customer base.

Continuous Improvement: To accomplish the highest level of customer service, Covad must build high performance teams across its workforce. The outcome will be a more efficient organization that provides seamless customer service. The curriculum includes coursework in communications skills, building teams, facing the challenges of teamwork and team leadership, learning new tools and techniques for making teams more effective, and working with internal and external customers. Training will also empower frontline workers to make decisions and solve problems. Courses will include problem solving, managing priorities, and developing leadership skills among frontline workers.

Commercial Skills: To be successful in a highly competitive market, Covad must guarantee the reliability and availability of its services, and maintain a highly-skilled force of technicians both onsite and in field locations to stay ahead of technical "glitches" before they reach customers and interrupt their

NARRATIVE: (continued)

service. Covad's NOC in San Jose, California, monitors network elements 24 hours a day, 7 days a week. In addition, the NOC provides the customers' information technology staff with access to automated information regarding issues or network outages. The Commercial Skills curriculum includes advanced coursework for both the NOC technicians and field services technicians. Courses include state of the art DSL equipment, troubleshooting, and testing of various types of connections.

Computer Skills: This training will help employees to use, operate, and troubleshoot various computer and software applications. The training will also allow employees to work more efficiently and independently manage their work. Training will include Microsoft Word, Excel, PowerPoint, and Outlook software, as well as software applications unique to a DSL provider. Previously this training was provided on an "as-needed" basis and rarely in a classroom/laboratory environment.

Management Skills: The success of a high performance workplace depends strongly on management's ability to guide teams with effective leadership and direction. Therefore, it is important for managers to receive training similar to the rest of the workforce, particularly in team development and team leadership. Because Covad grew so quickly during its first few years, many employees with technical backgrounds were moved into management roles with little related training. Due to the reason that the regular ETP funds in this project are limited to retraining headquarters personnel, the pool of employees to retrain includes a higher proportion of management staff. Many of these individuals have frontline roles in which they are directly involved in the delivery of services including program, contract, and project management.   The Management Skills curriculum provides training in performance expectations, coaching skills, leadership styles, communication, delegating, and motivating.

Supplemental Nature of Training

Covad currently funds and will continue to support training of its workforce. The Company reports that its current annual training budget for California is approximately $100,000 per year, and includes safety training, training in Federal Communications Commission regulations and changes, new hire employee orientation, various technical on-the-job skills in an "as-needed" approach for individuals, and training for executives and upper management in leadership skills and strategy development.

Unfortunately, training has been unstructured and employee/job specific. Most of its past and current training has been focused on getting individuals trained to do their specific jobs, with much of the "training" being informal instruction by peers and coworkers. Covad has never conducted a company-wide training program that requires a systematic effort to improve workforce skills across all levels and departments of its headquarters and San Jose operations.   As a fairly young company emerging from bankruptcy, Covad recognizes that its past approach to training, with limited ad hoc courses and training on an "as-needed" basis, is not sufficient to meet the competitive demands of its marketplace.

Covad is seeking ETP funding because, without it, the Company would be unable to dedicate sufficient resources necessary for a company-wide training effort. The Company is committed to funding its current training as well as additional training in ergonomics, various personal development courses, and legal and regulatory training. The ETP funding will allow Covad to build a comprehensive training program which will serve as a foundation for future training.

In-Kind Contribution

Covad Communication, Inc.'s in-kind contribution is $360,750 for wages paid to trainees while attending ETP-funded training.

COMMENTS:

No senior level managers or other executives who set company policy are included in the proposed training.

All participants in this project meet the Panel definition of frontline worker under Title 22, California Code of Regulations, Section 4400 (ee) except for 15 Managers and 13 Directors. These are individuals who manage employees. Not included in this count are managers who have frontline roles in which they are directly involved in the delivery of services including program, contract, and project management.

Turnover Rate: Covad is requesting that the Panel grant a waiver of its turnover rate requirements as allowed under provisions of Title 22, California Code of Regulations, Section 4417, that permits the Panel to accept a turnover rate exceeding 20 percent if the employer has experienced a singular reduction in force or other occurrence which adversely affected its turnover rate.

Covad's turnover rate in California for the last 12 months was 24 percent. The Company considers this rate as the end of an anomaly or spike in its turnover, which is now on a downward trend. During the Company's initial growth period of 1996 though 1999, its turnover rate was fairly low. In fact, the turnover rate in California at the end of 1999 was approximately 12 percent.

In 2000, decreased market demands and a downturn in the telecommunications market forced Covad to cut operational costs by 13 percent, which included reducing its workforce. Turnover rates during 2000 reached 40 percent as the company went through a massive restructuring. In August 2001, Covad filed a Chapter 11 reorganization plan. From the middle of 2001 though mid-2002, its turnover rate in California dropped to approximately 33 percent. Covad has now emerged from bankruptcy, effectively eliminating billions of dollars in debt through funding provided by restructured agreements with SBC Communications and a bondholder agreement to eliminate debt. This funding makes Covad essentially debt-free and on track to have a positive cash flow by the second half of 2003.

Further, Covad reports that its turnover rate is now on a downward trend. The turnover rate among California employees as of August 2002 was approximately 12 percent, and Covad believes that its turnover rate in California will continue to be less than 20 percent. Thus, the Contractor has agreed to a contract requirement to withhold 25 percent of the cost per trainee unless it reduces its overall turnover rate to less than 20 percent by the end of the Agreement term.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement and waive the turnover rate cap if funds are available and the project meets Panel priorities. This recommendation is based on the Company's statement that this training will result in the implementation of a high performance workplace in the nationwide telecommunications market. The result will be increased long-term job security for Covad's California workforce.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Job 1 Retrainee	Menu: Computer, Business, Commercial, Management, and Continuous Improvement Skills	137	40	0	0	$520	$15.40-$68.52
Jobs 2 – 5 SET Frontline Worker Retrainee	Menu: Computer, Business, Commercial, and Continuous Improvement Skills	125	15-40	12-30	0	$395-$520	$20.27-$40.38
					Range of Hourly Wages $15.40-$68.52		
					Prevalent Hourly Wage $26.32		
					Average Cost per Trainee $483		
Health Benefit used to meet ETP minimum wage: N/A					**Turnover Rate** 24%	**% of Mgrs & Supervisors to be trained:** 10% (does not include 56 managers who deliver services)	

Covad Communications
MASTER RETRAINING MENU CURRICULUM

Cls/Lab	**SOST**	**Course Outline**
Trainee hours	Trainer hours	
15-40	**0**	**MENU- Class/Lab Courses**

Trainees will receive any of the following:

Management Skills
- Budget and Financial Management
- Coaching- Bringing Out the Best in Others
- Coaching for Sales Effectiveness
- Forward Thinking
- Gaining Commitment to Preset Goals
- Interviewing Skills
- Making It Happen
- Management Skills I
- Management Skills II
- Management Skills III
- Performance Management
    - Conducting a Collaborative Performance Review
    - Correcting Performance Problems
    - Establishing Performance Expectations
- Sales Management Best Practices

Business Skills
- Advanced Selling Skills
- Building a Constructive Relationship with your Manager
- Business Writing
- Business and Financial Strategy
- Conducting Information Exchange Meetings
- Customer Service with a Passion
- Expressing Yourself- Presenting your thoughts and ideas
- Facilitating for Results
- Fostering Improvement through Innovation
- Getting the Information You Need
- Giving and Receiving Constructive Feedback
- Giving Recognition
- Identifying Work Priorities and Setting Goals
- Increasing Personal Effectiveness
- Influencing Win/Win Outcomes

- Marketing Programs
- Network Operations Center Customer Service
- New Product training
- Personal Strategies for Navigating Change
- Presentation Skills
- Proactive Listening
- Productive Meetings
- Professional Client Skills
- Project Management
- Strategic Business Development
- Time Management
- Train the Trainer
- Valuing Diversity

Continuous Improvement Skills
- Teambuilding
  - Developing team plans
  - Expanding your team's capability
  - Helping your team reach consensus
  - Keeping your team on course
  - Making the most of team differences
  - Moving the organization forward
  - Playing a vital role in team decisions
  - Raising difficult issues with your teams
  - Team development
  - The basic principles of teamwork
  - The challenge of team leadership
  - The team advantage
- Continuous Improvement
  - Basic principles of a collaborative workplace
  - Building a foundation of trust
  - Managing your priorities
  - Moving from conflict to collaboration
  - Problem solving and decision making
  - The leader in each of us

Commercial Skills
- Telecommunications
  - Advanced IDSL (Integrated Services Digital Network Digital Subscriber Line) loop troubleshooting
  - Advanced TCP/IP (Transmission Control Protocol/Internet Protocol)

- DS1 for Transmission Technicians
- DS1 signaling and troubleshooting
- DS3 for Network Operations Center
- DS3 for Transmission Technicians
- DS3 signaling and troubleshooting
- Hub and Power
- Monitoring voice circuits
- Optical Circuit 3
- Optical network
- Preventative Maintenance
- PVC (Permanent Virtual Connection) Aggregation
- RLCS (Remote Line Card Shelf)
- SES (Service Expansion Shelf)
- The Covad Management Network
- Troubleshooting DS1 and DS3 Circuits
- Troubleshooting DSLAM (Digital Subscriber Line Access Multiplexer) Port Test Failures
- Voice Installation

Computer Skills
- Microsoft Office Applications
  - Word
  - Excel
  - PowerPoint
  - Outlook
- COLTS 2.0 for the Network Operations Center
- Diamond Craft
- Hi-Cap Database
- KIWI Scheduler (Internal Covad software)
- Pairs Database
- ProvGUI (Internal Covad software)

0-30   0   **MENU- Computer-Based Training Courses**
Trainees will receive any of the following:

Business Skills
- Consumer Services
- ILEC (Incumbent Local Exchange Carrier) Relationships
- Industry Partner Relations
- Line Share for Covad

- Product Knowledge
  - Direct Voice
  - New Product Training
  - OSS (Operating Support System) Release Notes
  - Process Release Notes
  - TeleSoho
  - TeleXtend
- Service Appointment Process
- Work Logs

Commercial Skills

- Telecommunications
  - ATM (Asynchronous Transfer Mode) and frame relay
  - CO (Central Office) security
  - Configuring routers
  - DSL CO (Digital Subscriber Line Central Office) Equipment
  - DSL (Digital Subscriber Line) Switching Equipment
  - DSL/IP (Digital Subscriber Line/Internet Protocol)
  - End User Equipment
  - Interpreting LEDs (Light Emitting Diode)
  - Interpreting loop tests
  - Line share for Field Service Technicians
  - Loop test troubleshooting
  - Perform test and acceptance
  - Run Wiring and Perform Testing
  - Site Examination
  - TCP/IP (Transmission Control Protocol/Internet Protocol)
  - TeleXtend Network Maintenance and Troubleshooting
  - Test Equipment
  - Tools and Testing Equipment
  - Troubleshooting TeleXtend Loop

Computer Skills

- Client Ordering Services
- Database Applications- Trouble Ticket
- Loop Test Application
- Network Operations Center –Fault Management System
- Work Logs